Distr.
GENERAL

IDB.21/27
12 May 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 5 of the provisional agenda

OPERATIONAL ACTIVITIES FOR DEVELOPMENT

Report by the Director-General

Reports on the assessment of UNIDO's implementation of General Assembly resolution 52/203 in preparation for the triennial comprehensive policy review of operational activities for development.

Abbreviations

ITC	International Trade Centre
LDC	least developed country
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WTO	World Trade Organization

Introduction

1. The present report, which updates the information provided in document IDB.19/3, is submitted in compliance with the provisions of United Nations General Assembly resolutions 50/120 (para. 55) and 52/203 on the triennial policy review of operational activities for the development of the United Nations. The text should be considered in conjunction with the report on progress in the transformation of UNIDO (IDB.21/26), which provides information on cooperation with other organizations in the United Nations system, within the UNDAF (United Nations Development Assistance Framework) mechanism, and on United Nations houses in the field.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-84055 (E) (a:\1999\pmo.1)

Distr.: 14 May 1999

2. UNIDO has substantively contributed to the triennial comprehensive policy review of operational activities for the development of the United Nations system in response to General Assembly resolution 50/120. UNIDO's response is focused on five major areas: (a) evaluation of operational activities for development; (b) evolution of operational activities for development; (c) field structures, field coordination and the resident coordinator system; (d) programme development and support issues; and (e) role of partners.

3. Tremendous progress has been achieved by UNIDO, and the activities highlighted above are discussed in detail in the *1998 Annual Report* (IDB.21/10). The following paragraphs provide a summary overview of the policy and strategy issues contained in the annual report which have a bearing on the Organization's follow-up to General Assembly resolution 50/120.

I. SUMMARY OVERVIEW

4. The *1998 Annual Report* explains that UNIDO's transformation was guided by the Member States' Business Plan and the guidance provided by the Secretary-General's reform proposals for enhancing system-wide coherence and effectiveness.[1] As a result, UNIDO is today more responsive to the political and economic realities that have fundamentally changed the nature and scope of development cooperation as set out in the provisions of General Assembly resolution 50/120.

5. The transformation was carried out under four guiding principles:

- **A clear sense of where industrial development needs to go in the early twenty-first century and UNIDO's dynamic role in that development.** This was made evident in a more precise definition of UNIDO's services and products. Their delivery is integrated in a systematic approach of internal cooperation and teamwork to fully meet the needs of recipient countries.

- **A structure, procedures and culture featuring consultation, transparency and dialogue between empowered responsible staff and Member States.** Multidisciplinary teams have been established to drive the transformation, refine the focus, develop integrated programmes and maximize impact. Decentralization and delegation to UNIDO field offices have received priority attention. A programme to set up regional offices has been initiated.

- **Elimination of internal and external overlaps, and duplication of activities.** UNIDO is actively striving to integrate with other United Nations organizations and other multinational, international and bilateral agencies as well as to strengthen significantly its cooperation with the private sector and civil society.

- **The Business Plan as a guideline and point of reference for all the actions.** This has meant particular attention to the industrialization challenges facing Africa and LDCs—but without prejudice to UNIDO's universal mandate.

6. With respect to the need for an agreed division of responsibility among members of the United Nations development system and of greater complementarity in the implementation of their respective mandates, UNIDO has made great strides in achieving the following objectives:

- Support to the system-wide reform initiated by the Secretary-General through greater organizational cost-effectiveness, decentralization and intensified inter-agency cooperation;

- A UNIDO policy firmly aligned with the broad United Nations global agenda of sustainable human development and poverty reduction through UNIDO's programmatic focus on the "three Es" of sustainable industrial development: competitive Economy, productive Employment, and sound Environment, at the policy, institutional and enterprise level;

- A state-of-the-art approach to integrated programming fully complementary to the UNDAF mechanism;

- A series of concrete partnership arrangements with the private sector and civil society;

- Priority attention to Africa and LDCs through integrated programming missions and the Alliance for Africa's Industrialization.

7. As a result of agreements signed in 1998 with UNCTAD, UNDP and UNEP, extensive cooperation is taking place in a wide range of areas (IDB.21/26, chap. I). Memoranda of understanding have also been signed with UNDP field offices in Moscow and New Delhi. Cooperation with other agencies has taken diverse forms, such as participation in the programme of ITC, UNCTAD, UNDP, WTO and the World Bank on trade-related activities in support of LDCs, and with the United Nations Department for Economic and Social Affairs on the Commission on Sustainable Development. UNDP is also actively supporting UNIDO's integrated programming activities in many countries.

8. During UNIDO integrated programming exercises, reviews are initiated to determine development constraints beyond UNIDO's own knowledge base. Sources include programming instruments introduced as part of the United Nations reform (UNDAF, common country assessments and common country frameworks). Special attention is paid to the priorities identified through consultations between UNIDO and key public and private sector stakeholders.

9. Multi- and bilateral agencies are also being systematically consulted. A very encouraging recent development is the positive response to the

[1] Secretary-General, "Renewing the United Nations", A/51/950, 1997.

Director-General's invitation for donor countries' direct participation in UNIDO programming missions. Approximately seven UNIDO integrated programming teams will be complemented by donor country staff or experts. This may help to increase funds made available for UNIDO programmes and improve the coordination of respective field programmes.

10. UNIDO has consolidated its field office programme in line with the Business Plan and General Assembly resolution 50/120, both of which emphasize decentralization of substantive responsibilities, and has strengthened its field presence. This is in line with the reform measures of the United Nations Secretary-General which stress the need for greater cooperation and coherence among funds and programmes in the field within the system, as well as for a unified United Nations field representation. Against this background, the cooperation agreement concluded with UNDP on field-level activities is already enhancing the effectiveness and harmonization of development cooperation activities.

11. Within this context, the development and issuance of a number of administrative instructions defined the operational parameters of UNIDO country and subregional offices and national focal points. These administrative tools provide country offices within the required mechanisms to carry out their enhanced functions and to ensure that UNIDO services are developed in close partnership with host countries and comprise programme quality, evaluation and internal oversight.

12. UNIDO's objective is to meet the industrial development needs of its clients in a manner which provides the greatest and most effective contribution to the process of sustainable development consistent with the mandate, knowledge and experience of the Organization. An important milestone in documenting the system is the recent issuance of guidelines for the formulation of integrated programmes.

II. ACTION REQUIRED OF THE BOARD

13. The Board may wish to take note of the information provided in the present report.

Distr.
GENERAL

IDB.21/28
17 May 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 10 of the provisional agenda

APPLICATIONS FROM NON-GOVERNMENTAL ORGANIZATIONS FOR CONSULTATIVE STATUS

Note by the Director-General

Provides information on the following six non-governmental organizations applying for consultative status with UNIDO: All-Russia Market Research Institute (VNIKI), Association Compagnia Delle Opere (CDO), Association of former United Nations Industrial Development Experts (AFIDE), Cairo Regional Centre for International Commercial Arbitration, International Congress of Industrialists and Entrepreneurs (ICIE), and Volunteers Association for International Service (AVSI).

1. In accordance with Article 19.1 (b) of the Constitution of UNIDO and the Guidelines for the Relationship of UNIDO with intergovernmental, governmental, non-governmental and other organizations (decision GC.1/Dec.41), in particular paragraph 17 of the annex thereto, information on six governmental organizations (NGOs) seeking consultative status with UNIDO is circulated to the members of the Board in the annex to the present document. More detailed information on each NGO is available with the Secretariat.

2. Paragraph 17 of the annex to the Guidelines stipulates that the Board shall establish appropriate procedures for reviewing applications from NGOs for consultative status. To facilitate and accelerate its work, the Board may wish to follow the practice established at previous sessions and request the Bureau of the Board to review the applications of, and information on, the six NGOs annexed to the present document and to submit its recommendations to the Board for consideration at its current session.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-84117 (E)

Distr.: 19 May 1999

Annex

NON-GOVERNMENTAL ORGANIZATIONS APPLYING FOR CONSULTATIVE STATUS

Page

ALL-RUSSIA MARKET RESEARCH INSTITUTE (VNIKI) 2

ASSOCIATION "COMPAGNIA DELLE OPERE" (CDO) 3

ASSOCIATION OF FORMER UNITED NATIONS INDUSTRIAL DEVELOPMENT EXPERTS (AFIDE) 3

CAIRO REGIONAL CENTRE FOR INTERNATIONAL COMMERCIAL ARBITRATION 4

INTERNATIONAL CONGRESS OF INDUSTRIALISTS AND ENTREPRENEURS (ICIE) 4

VOLUNTEERS ASSOCIATION FOR INTERNATIONAL SERVICE (AVSI) 5

The designations employed and the presentation of the material in the present document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

*****

ALL-RUSSIA MARKET RESEARCH INSTITUTE (VNIKI)

Historical background

Established in 1947 in Moscow, the Institute was transformed in 1994 into an open joint stock society with the objective of acting as an independent research and expertise body.

Statutes

Available.

Structure of governing bodies and administration

General Meeting of Shareholders
Board of Director
Director
Acting Deputy Directors

Activities related to the work of UNIDO

(a) Carrying out market research, analysis and forecasting in respect of both domestic and foreign markets;

(b) Elaborating methodological and practical recommendations regarding the development and improvement of Russia's foreign economic activity;

(c) Promoting foreign economic activity in industry at the regional and enterprise levels;

(d) Carrying out commercial and other activities relating to the promotion of foreign trade and investment.

Relations with the United Nations and other IGOs

Cooperation with the International Monetary Fund, World Bank, United Nations regional economic commissions, and International Trade Centre UNCTAD/WTO.

Relations with NGOs

Cooperation with the International Trade Chamber, the Russian Federation Chamber of Trade and Industry, the Council of Industry Association of Producers and Exporters.

Membership

Individuals, companies, banks.

Address of headquarters

4, Pudovkina St.
Moscow
119285 Russian Federation
Tel.: (+ 7-95) 143-02-61
Fax: (+7-95) 143-02-71
E-mail: vniki@vniki.msk.ru

ASSOCIATION "COMPAGNIA DELLE OPERE" (CDO)

Historical background

Established in 1986 at Milan, Italy, to promote the spirit of mutual collaboration and assistance and to enhance economic and human resources in enterprises, cooperatives and public welfare and cultural entities.

Statutes

Available.

Structure of governing bodies and administration

Assembly of Members
Board of Directors
Executive Committee
President
Managing Director

Activities related to the work of UNIDO

(a) Organizing training courses and seminars for enterprises as well as providing them with technical, legal and managerial assistance and consultancy;

(b) Collecting and disseminating information;

(c) Organizing meetings and fairs with a view to promoting collaboration among enterprises;

(d) Mobilizing funds and improving access for enterprises to funding sources;

(e) Promoting scientific and technological research and studies as well as technical experimentation.

Relations with the United Nations and other IGOs

Cooperation with the International Labour Organization and the European Union.

Relations with NGOs

Cooperation with Caritas, Italian Federation of Free Trade Unions, Cooperativa Solidarieta, European Business Network for Social Cohesion, SODALITAS and with the Brazilian, Italian and Polish Chambers of Commerce.

Documentation confirming the international character of membership

Available.

Membership

Non-profit organizations, enterprises and individuals.

Address of headquarters

Via Tranchedini 4
20149 Milan
Italy
Tel.: (+39-2) 3315051
Fax: (+39-2) 315237
E-mail: estero@cdo.it
Internet: http://www.id-spa.it

ASSOCIATION OF FORMER UNITED NATIONS INDUSTRIAL DEVELOPMENT EXPERTS (AFIDE)

Historical background

Established in 1997 with the objective of offering its collective technical experience in industrial development to developing countries in support of United Nations organizations' technical cooperation programmes.

Statutes

Available.

Structure of governing bodies and administration

General Assembly
Board
Arbitration Committee

Activities related to the work of UNIDO

(a) Developing strategies for sustainable industrial development, policies and plans for various sectors, including privatization and restructuring aspects;

(b) Assisting in establishing production facilities through project identification and preparation;

(c) Carrying out assessment, evaluation and restructuring of existing enterprises and organizations;

(d) Providing assistance to developing countries in meeting their human resource development needs, as well as in areas relating to improving the global competitiveness of existing industries, and in all fields related to environmental protection;

(e) Assisting in the creation of professional associations and institutions for both industry in general and specific industrial subsectors, as well as upgrading existing associations.

Documentation confirming the international character of membership

Available.

Membership
Individuals.

Address of headquarters
Schaumburgergasse 11/17
A-1040 Vienna
Austria
Tel./Fax: (+43-1) 505-50-85

CAIRO REGIONAL CENTRE FOR INTERNATIONAL COMMERCIAL ARBITRATION

Historical background
Established at Cairo, Egypt, in 1979 following a decision adopted at the ninetieth session of the Asian-African Legal Consultative Committee to contribute to and enrich the progress of the economic development scheme in both Asian and African countries through preventing or helping settle international trade and investment disputes.

Statutes
Available.

Structure of governing bodies and administration
Board of Directors
Institute of Investment and Arbitration
Cairo Branch of the Chartered Institute of Arbitrators
General Secretariat for Arab Arbitration Institutions

Activities related to the work of UNIDO
(a) Providing advice on drafting of international commercial and investment contracts, and on dispute prevention activities;

(b) Promoting arbitration and alternative dispute resolution techniques in the region through the organization of international conferences and seminars and publication of research;

(c) Organizing training programmes and seminars through the Centre's Institute for Arbitration and Investment;

(d) Developing a comprehensive library and data bank on trade and investment, commercial dispute resolution laws, rules and techniques;

(e) Conducting research on trade and investment laws and on new and alternative means of dispute resolution;

(f) Compiling a record of national and regional consultation firms of outstanding reputation in trade, industry and investment.

Relations with the United Nations and other IGOs
Cooperation with the World Bank, World Trade Organization, United Nations Commission for International Trade Law, Chartered Institute for Arbitrators, World Intellectual Property Organization, and League of Arab States.

Relations with NGOs
Cooperation with international arbitration institutions.

Documentation confirming international character of membership
Available.

Membership
Organizations and individuals.

Address of headquarters
1 Al-Saleh Ayoub St.
Zamalek, Cairo
Egypt
Tel.: (+20.2) 3401333, 3423693
Fax: (+20.2) 3401336, 3401333
E-mail: crcica@idsc1.gov.eg

INTERNATIONAL CONGRESS OF INDUSTRIALISTS AND ENTREPRENEURS (ICIE)

Historical background
Established in February 1992 in Moscow, Russian Federation, by the National Unions of Industrialists and Entrepreneurs of the former Republics of the Soviet Union with the main objectives of stopping economic recession and reviving and developing industry and other branches of the economy.

Statutes
Available.

Structure of governing bodies and administration
Assembly
Council of the Congress
Control Committee

Activities related to the work of UNIDO
(a) Organizing bilateral and multilateral meetings, consultations, and negotiations on cooperation between the Congress members;

(b) Establishing regional centres and representations of ICIE; conducting presentations, holding exhibitions and demonstrating ICIE products;

(c) Participating in joint ventures, financial and industrial groups, and international economic unions;

(d) Participating in the development and implementation of business, investment, financial and commercial programmes and projects;

(e) Assisting in establishing, and participating in, activities of free economic zones;

(f) Preparing proposals related to industrial and business structures.

Relations with the United Nations and other IGOs

Collaboration with CIS Interparliamentary Assembly and Interstate Economic Committees of the CIS Economic Union.

Relations with NGOs

Collaboration with the General Confederation of Trade Unions, International Center of Scientific and Technical Information, and others.

Documentation confirming international character of membership

Available.

Membership

Associations of manufacturers and business entities and other national and international public organizations.

Address of headquarters

Kotelnicheskaya nab. 17
Moscow 109240
Russian Federation
Tel.: (+7-95) 298-52-75, (095) 298-49-55
Fax: (+7-95) 298-52-75

VOLUNTEERS ASSOCIATION FOR INTERNATIONAL SERVICE (AVSI)

Historical background

Established in 1972 at Cesena, Italy, to raise awareness of development issues among individuals and institutions and encourage their participation in development cooperation with NGOs from developing countries and countries with economies in transition.

Statutes

Available.

Structure of governing bodies and administration

General Assembly
Board of Directors
President
Managing Director

Activities related to the work of UNIDO

(a) Developing local human resources through implementing educational, managerial and training programmes;

(b) Supporting local communities and institutions in implementing structural interventions in the urban and rural environment of developing countries;

(c) Mobilizing financial resources required for establishing small production companies capable of generating income and jobs;

(d) Rehabilitating and reconstructing structures and services in post-emergency situations as well as in countries with economies in transition;

(e) Fostering job creation and production activities by establishing training centres, cooperating with existing universities and research institutions, and providing support in setting up small production units and cooperatives;

(f) Promoting the transfer of technologies and of technical know-how.

Relations with the United Nations and other IGOs

General consultative status with the Economic and Social Council of the United Nations. Cooperative relations with the European Union, United Nations Children's Fund, United Nations Commission on Human Settlements, United Nations Development Programme, United Nations High Commission for Refugees, United States Agency for International Development, and World Food Programme.

Relations with NGOs

Cooperative relations with Voluntary Organizations in Cooperation in Emergencies as well as universities; NGOs in developing and industrialized countries.

Documentation confirming the international character of membership

Available.

Membership

Organizations and individuals (professionally qualified volunteers) on four continents.

Address of headquarters

Via Fantoli 6/15
20138 Milan
Italy
Tel.: (+39-2) 506 12 12
Fax: (+39-2) 506 29 94
E-mail: avsimi@tin.it
Internet: http://www.enter.it/avsi

Distr.
GENERAL

IDB.21/28/Add.1
26 May 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 10 of the provisional agenda

APPLICATIONS FROM NON-GOVERNMENTAL ORGANIZATIONS FOR CONSULTATIVE STATUS

Note by the Director-General

Addendum

Provides information on the following two non-governmental organizations applying for consultative status with UNIDO: Mountain Unlimited (Society for Development and International Cooperation) and Unterstützungsverein für Gewerbliche Betriebsgründungen in Albanien (UGEBIA).

Since the publication of document IDB.21/28, the above-mentioned applications from non-governmental organizations (NGOs) for consultative status in accordance with Article 19.1 (b) of the Constitution of UNIDO have been received. Information on those organizations are circulated to the Board in the annex to the present document. More detailed information on the organizations is available with the Secretariat.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-84216 (E) (a 1999 pmo 1)

Distr.: 28 May 1999

Annex

NON-GOVERNMENTAL ORGANIZATIONS APPLYING FOR CONSULTATIVE STATUS

Page

MOUNTAIN UNLIMITED (SOCIETY FOR DEVELOPMENT AND INTERNATIONAL COOPERATION) 2

UNTERSTÜTZUNGSVEREIN FÜR GEWERBLICHE BETRIEBSGRÜNDUNGEN IN ALBANIEN (UGEBIA) 3

The designations employed and the presentation of the material in the present document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

*****

MOUNTAIN UNLIMITED
(Society for Development and International Cooperation)

Historical background

Established in 1993 at Hall/Tirol, Austria, with the aim of contributing towards a better and sustainable future, focusing on the promotion of equal opportunities in developing countries and countries in transition.

Statutes

Available.

Structure of governing bodies and administration

Board
Chairman
Vice Chairman

Activities related to the work of UNIDO

(a) Planning and implementing innovative and integrated strategies for developing rural areas;

(b) Promoting equal opportunities between rural and urban populations and between the information-rich and the information-poor;

(c) Carrying out projects related to water sanitation and environmental pollution, promoting small-scale (cottage) industries;

(d) Providing training with particular emphasis on better opportunities for women.

Relations with the United Nations and other IGOs

Cooperation with the World Bank, European Union, and Water Supply and Sanitation Council.

Relations with NGOs

Cooperation with Information Habitat New York, International Internet Society, International Federation of Consulting Engineers, International Development Law Institute, European Foundation Centre, The World of NGOs, Globally Integrated Village Environment, Austrian Society for Environment and Technology, and many other active NGOs in Austria, Europe and other regions.

Documentation confirming international character of membership

Not applicable.

Membership

Individuals.

Address of headquarters

Salvatorgasse 2a
6060 Hall/Tirol
Austria
Tel: (+43 5224) 56 414
Fax: (+43 5224) 56 412
e-mail: mountain.unlimited@blackbox.at

UNTERSTÜTZUNGSVEREIN FÜR GEWERBLICHE BETRIEBSGRÜNDUNGEN IN ALBANIEN (UGEBIA)

Historical background

Founded in 1994 in Vienna, Austria, to support Albanian citizens in setting up their own companies, thus enabling them to improve the economic infrastructure of the country.

Statutes

Available.

Structure of governing bodies and administration

General Assembly
Board
Secretary

Activities related to the work of UNIDO

(a) Contributing to poverty alleviation in Albania;

(b) Supporting the establishment of commercial enterprises through direct non-repayable grants;

(c) Monitoring the development and growth of enterprises that have received assistance;

(d) Cooperating with other organizations to further these activities.

Relations with NGOs

Cooperation with Entwicklungshilfe-Klub, Caritas.

Documentation confirming international character of membership

Not applicable.

Membership

Individuals and organizations.

Address of headquarters

Thurygasse 4/17
Vienna 1090
Austria
Tel: (+43-1) 317-67-75

Distr.
GENERAL

IDB.21/29
PBC.15/15
15 June 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-first session
Vienna, 23-25 June 1999
Item 4 (j) of the provisional agenda

Programme and Budget Committee

Fifteenth session resumed
Vienna, 23 June 1999
Agenda item 2

IMPLICATIONS OF THE EURO FOR UNIDO

Note by the Secretariat

1. At its fifteenth session, the Committee adopted conclusion 99/1, in which it decided to add an item to the agenda of its fifteenth session entitled "Implications of the euro for UNIDO", to be the sole item of discussion at a resumed session on 23 June 1999.

2. A memorandum on that subject has been submitted by the European Union, as contained in the annex to the present document.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-85037 (E)

Distr.: 18 June 1999

Annex

European Union

MEMORANDUM

Concerning: Adoption of the euro by UNIDO

1. A particularity of UNIDO is that it is a United Nations specialized agency which has its headquarters in a country belonging to the euro zone and uses dollars in its accounting. For this reason, the European Union wishes to initiate a study process with a view to the tabling of a request that a budget and accounts system based on the euro alone be put in place. In this respect, the Programme and Budget Committee (PBC) has adjourned its fifteenth session and added to its agenda a specific item: "Implications of the euro for UNIDO". It can be recalled that Latin Union member countries have adopted the euro as the accounting currency as from January 1, 1999, basing this decision on Article 109 G of the Treaty on the European Union (TEU) and European Union regulation 1103/97.

2. From the point of view of the European Union, the adoption of the euro is justified by the following reasons:

(a) The use of the euro in international transactions: The third stage of Economic and Monetary Union began on January 1 1999, in accordance with Article 109 J, paragraph 4, of the Treaty on the European Union. The Austrian schilling thus becomes no more than a subdivision of the euro, by which it will be definitively replaced as from January 1, 2002 (Article 3 of regulation 974/98 of May 3, 1998);

(b) The use of the euro within the Organization: UNIDO uses the schilling for 82 per cent of its routine transactions, notably to pay staff salaries. Through the modifications of the appropriate staff rules (or regulations)[1], the proportion of transactions in United States dollars could even be substantially reduced;

(c) Simplification of procedures and promotion of the euro: The adoption of a contribution payment system and an accounting structure based on just one currency is a factor for simplification for the Organization. It would make its accounts easier to read in addition to making it possible to prepare well in advance for a process which has now become inescapable;

(d) Security of currency conversions: At the present time, when a contribution is paid, the contributing country is exposed to an exchange risk if it pays in dollars, or even in schillings if it is not a member of the euro zone.

3. Outside the euro zone, the 14 countries of the franc area should also benefit from a switch to the single currency for the payment of their contributions, insofar as the CFA franc has the benefit of fixed parity with the euro. The use of the euro by UNIDO in that area will send out a signal which will help strengthen the institutional framework and the attractiveness for private investors of this region of the world. The same applies for Bosnia and Herzegovina, since it has a fixed parity with the German mark.

---

[1] *Under the existing rules, P-level and D-level staff may choose to be paid partially in US dollars. This rule could be changed to limit this faculty to field staff for whom UNIDO is compelled to use US dollars to pay the salaries. Negotiations with the UN pension fund could also probably lead to further reductions of the disbursements in US dollars.*

4. The European Union has thus identified the articles of the financial regulations which should be modified for this purpose: they are regulations 3.2[ii], 5.1 (d)[iii], 5.5 (d) and (e)[iv] and regulation 10.5[v], which would be amended to read as follows:

Financial regulation	**Proposed amended text**
3.2	The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in euros.
5.1 (d)	Each assessment shall be established in euros.
5.5 (d)	Advances to the Working Capital Fund shall be assessed and paid in euros.
5.5 (e)	Contributions to the regular budget are established and paid in euros.
10.5	The accounts of the Organization shall be presented in euros.

5. A number of technical modifications will in fact be necessary:

(a) For the countries with arrears, it will be necessary to fix the part of arrears payable in dollars (the arrears accumulated after the adoption of the euro will be payable in that new currency).

(b) Other aspects must also be taken into account: rules for currency conversion and rounding off, definition of thresholds and "round" figures following automatic schilling/euro conversion, changes to computing systems (which will need prior testing) and the continuity of international agreements and contracts entered into by the Organization (contracts expressed in the currency of a Member State or in ECUs and governed by the laws of a State outside the European Union).

6. By doing so, the European Union wishes to stress the following:

(a) Its proposal does not concern the operational budget and the payment of voluntary contributions, which, as before, will be done in the currency chosen by the donor country: technical cooperation programmes will not be affected by the adoption of the euro;

(b) Likewise, the objective of this proposal is not to affect the possibility of authorizing the payment of contributions in local currency for the countries which accumulated arrears, since the intent is to determine a general rule which could be changed for specific purposes;

[ii] *Regulation 3.2*: "The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in United States dollars."

[iii] *Regulation 5.1 (d)*: "Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."

[iv] *Regulation 5.5 (d)*: "Advances to the Working Capital Fund shall be assessed and paid in United States dollars."
Regulation 5.5 (e): "Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1 (d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."

[v] *Regulation 10.5*: "The accounts of the Organization shall be presented in United States dollars. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary."

(c) The European Union thinks it is necessary to proceed to the changes at the eighth session of the General Conference in 1999. It would in fact be difficult for the Secretariat to prepare the budgetary documents for the 2002-2003 biennium efficiently, if, in the meantime, a euro-based system were under consideration. By taking a decision in 1999 that will apply in 2002, the General Conference allows the Secretariat to adapt itself in time.

7. As a conclusion, the European Union invites the Programme and Budget Committee to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the replacement of the Austrian schilling by the euro in accordance with article 3 of European Union regulation 974/98;

"(b) Recommends to the General Conference at its eighth session the adoption of a single-currency system of assessment based on the euro, for the fiscal period 2002-2003 and in future bienniums;

"(c) Requests the Director-General to report to the Board at its twenty-third session, through the Programme and Budget Committee, on the implications of the present decision, including the required amendments to the financial and staff regulations and rules;

"(d) Requests the Programme and Budget Committee at its seventeenth session to propose to the Industrial Development Board a determination of the amount of arrears to be established in United States dollars for the period prior to 1 January 2002;

"(e) Encourages the Director-General to promote the use of the euro for the transactions of the Organization."

Distr.
GENERAL

GC.8/15
IDB.21/30
31 August 1999

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999
Item 11 (g) of the provisional agenda

Industrial Development Board

Resumed twenty-first session
Vienna, 29 November 1999
Agenda item 4 (j)

IMPLICATIONS OF THE EURO FOR UNIDO

Report by the Director-General

Reports on the budgetary, operational and financial aspects of the adoption of a single-currency system of assessment based on the euro, in compliance with decision IDB.21/Dec.8.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 3	2
Chapter			
I.	THE EURO	4 - 7	2
II.	ACTION TAKEN BY UNIDO	8 - 9	2
III.	SPLIT-CURRENCY SYSTEM OF ASSESSMENT	10 - 15	3
IV.	OTHER ORGANIZATIONS	16 - 17	4
V.	THE ISSUE	18 - 39	4
	A. Replace schillings with euros under the split-currency system	19 - 22	4
	B. Introduce a euro-based single-currency system	23 - 39	5
VI.	CONCLUSION	40	8
VII.	ACTION REQUIRED OF THE BOARD	41	8
Annexes			
I.	Summary of major budgetary, operational and financial implications		9
II.	Other organizations		11
	Abbreviations		12

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-87586 (E)

Distr.: 14 September 1999

Introduction

1. At its fifteenth session, the Programme and Budget Committee adopted conclusion 99/1, in which it decided to add an item to the agenda of its fifteenth session entitled "Implications of the euro for UNIDO", to be the sole item of discussion at a resumed session on 23 June 1999. At its resumed session, the Committee considered a note by the Secretariat on implications of the euro for UNIDO that contained a memorandum on that subject submitted by the European Union (PBC.15/15-IDB.21/29). After taking note of the document, the Committee decided to refer the matter to the Industrial Development Board at its twenty-first session for its consideration.

2. The Industrial Development Board, at its twenty-first session, took note of documents IDB.21/29 and IDB.21/14/Add.1, and requested the Director-General to prepare, before 15 September 1999, a report examining budgetary, operational and financial aspects of the adoption of a single-currency system of assessment based on the euro, for the fiscal period 2002-2003 and in future bienniums (IDB.21/Dec.8). The Board also enlarged the mandate of the intersessional working group on proposed amendments to the financial regulations to discuss all aspects of the possible adoption of a single-currency system of assessment based on the euro, and requested the group to submit its conclusions to a resumed twenty-first session of the Board, for submission to the eighth session of the General Conference, with a view to taking appropriate action and a decision.

3. The present document is submitted in compliance with the above Board decision. In addition to examining budgetary, operational and financial aspects, the report provides information on the euro, action taken by UNIDO, the present split-currency system of assessment, and practices in other United Nations organizations and specialized agencies. In this connection, reference may be made to a 1987 review of alternative systems of stating budget estimates and assessing Member States and relevant experience within the United Nations system (PBC.3/10).

I. THE EURO

4. The euro was introduced with effect from 1 January 1999 to replace the national currencies of eleven participating countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. With this introduction, the Austrian schilling has become a sub-unit of the euro and the exchange rate between the schilling and euro has been fixed at euro 1 = ATS 13.7603. Any amount in schillings can now be converted into euros and vice versa without being considered as a foreign exchange transaction. The single currency means that there is now only one monetary policy with one interest rate for all 11 Euro Zone economies, whereas previously there were 11 independent monetary policies.

5. Euro notes and coins will be introduced on 1 January 2002. The Austrian schilling will, therefore, continue to exist alongside the euro until 31 December 2001, i.e. until the end of the transition period. On 1 January 2002, the process for the replacement of schillings will start, which must be concluded within six months, and by 1 July 2002 the schilling will be fully replaced by the euro.

6. During the transition period, there is a policy of "no compulsion; no prohibition", which means that there is complete freedom to use the euro and/or the national currency for the purpose of transactions. However, there will be no such option effective 1 January 2002, and all accounts, contracts, financial balances, etc. will be converted into euros by law.

7. The transition period is being used by the participating countries to prepare for the replacement of their national currencies by the euro. Many changes are already visible, as financial institutions, suppliers, vendors, etc. have started providing/displaying information in the national currencies as well as in euros. Many suppliers/contractors have also started invoicing in euros.

II. ACTION TAKEN BY UNIDO

8. UNIDO has been taking necessary actions to introduce the euro and to fully replace the Austrian schilling by the end of 2001. Actions taken to date include:

(a) Funds received in schillings are being acknowledged both in schillings and euros;

(b) Member States are being informed of their obligations in both currencies (i.e. schillings and equivalent euros);

(c) Requests for payment in euros are being honoured in that currency;

(d) Member States' obligations to the regular budget for the biennium 2000-2001 have been shown in Austrian schillings and euros;

(e) Assessment letters have been amended to reflect both currencies;

(f) Review initiated of necessary modifications to the financial regulations resulting from the disappearance of the schilling (also specified in paragraph 8 of document IDB.21/3-PBC.15/3).

9. Further action by UNIDO depends on whether Member States decide that UNIDO should continue with the split-currency system of assessment, or move to a 100 per cent euro-based system. Implications of both scenarios are discussed in paragraphs 18 to 39, and are summarized in annex I to the present document.

III. SPLIT-CURRENCY SYSTEM OF ASSESSMENT

10. Until the end of the biennium 1986-1987 (in its first biennium as a specialized agency), UNIDO had a single-currency system of assessment based on the United States dollar. Serious problems emerged when the dollar depreciated by some 34 per cent against the Austrian schilling (from USD 1 = ATS 17.50 in January 1986 to ATS 11.50 by December 1987). Since most expenditures were (and are) in Austrian schillings/euros, this depreciation caused a financial crisis for the Organization. A supplementary estimate of $3.1 million for the 1986-1987 regular budget had to be approved to offset the net shortfall of resources resulting from the depreciation of the dollar (GC.2/Dec.20).

11. To avoid a recurrence of such a situation and to reduce the impact of exchange rate fluctuations in general, the governing bodies of UNIDO approved a split-currency system of assessment effective 1 January 1988. Under this system Member States pay their contributions in the currency of actual expenditures (GC.2/Dec.21 and GC.2/Dec.22). Thus, the Organization is not exposed to any major problems resulting from exchange rate fluctuations. Based on the system in effect since 1988-1989, the dollar and schilling/euro contributions are set at 18 and 82 per cent respectively in the current biennium, and also form the basis for the programme and budgets for 2000-2001.

12. In budgetary terms, the split-currency system effectively resolves the problem of currency fluctuations in that it fixes the amount Member States are obliged to pay in dollars and in local currency (schillings/euros) at the level of the estimated requirements of UNIDO for these currencies. Thus, at the time of budget approval, Member States commit themselves to providing the resources required for the work programme. The main features of the split-currency system of assessment are:

(a) Obligations of Member States are fixed in two main currencies of expenditures;

(b) Budget estimates are prepared using the currency considered best suited to each type of expenditure;

(c) For budget presentation, local currency (schillings/euros) is converted into United States dollars at a specified rate of exchange (USD 1 = ATS 12.90) selected for ease of comparing estimates for a given year with budget for previous years;

(d) Appropriations and assessments of Member States are established in two currencies: one amount in local currency (schillings/euros) equal to expected local currency requirements and remainder in United States dollars;

(e) Risk of loss from foreign exchange is minimized.

13. Difficulties arising from the split-currency system include:

(a) Budget preparation is cumbersome owing to the need to determine in advance the ratio of schillings/euros and dollars;

(b) For budget performance monitoring, schilling expenditures are converted to dollars at the rate applied in the budget (USD 1 = ATS 12.90), whereas the same expenditures are recorded in the accounts at the monthly United Nations rate of exchange applicable at the time of payment, thus complicating analysis and comparison;

(c) The recording of transactions at the budget rate and the United Nations rate of exchange results in book gains and losses, further complicating analysis.

Effect on assessed contributions

14. At present, Member States are assessed 18 per cent of the approved regular budget in United States dollars and 82 per cent in Austrian schillings/euros. In accordance with financial regulation 5.5(e), Member States are required to pay their assessed contributions in dollars or Austrian schillings provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations rate of exchange in effect at the time the payment is received. Member States are subject to the following types of exposure:

(a) Their payments must cover 18 per cent dollar and 82 per cent schilling/euro contributions;

	Organization	Currency of assessment	Currency of accounting/reporting
Split currency	IAEA, UNIDO	USD and ATS	USD
	UNESCO	FRF and USD	USD
Single currency	CTBTO, FAO, ICAO, UN, WHO	USD	USD
	ILO	CHF	USD
	IMO	GBP	GBP
	ITU, UPU, WIPO, WMO	CHF	CHF
	OPCW	NLG	NLG

(b) Should both the dollar and schilling/euro contributions not be received during the same month, exchange losses/gains result from the application of the United Nations rate of exchange, thus leading to either an additional payment to be made by Member States, or an overpayment that is applied to the following year's assessed contributions. This often requires explanation from the Secretariat.

15. Outstanding assessed contributions in schillings are periodically converted to dollars using the applicable monthly United Nations rate of exchange. Therefore, outstanding amounts fluctuate from month to month without a real change in contributions, rendering comparison difficult.

IV. OTHER ORGANIZATIONS

16. Practices in some United Nations and other international organizations are summarized above. As can be seen, there is no uniformity and organizations have adopted different practices depending on their requirements or decisions by their governing bodies. The following table shows a number of organizations applying respective split-currency and single-currency systems, and annex II shows in tabular form the currencies of assessment and of accounting and reporting, proportion of expenditures in currencies and how exchange gains and losses are handled, including protective measures.

17. The United Nations International Drug Control Programme (UNDCP) does not have a system of assessment, as the budget is financed from voluntary contributions, with accounting and reporting in United States dollars.

V. THE ISSUE

18. In addition to the action already taken (para. 8), certain adjustments will be required to address the change from schillings to euros following the transition period, i.e. effective 1 January 2002. It should be emphasized that the 82 per cent now in Austrian schillings must inevitably be changed to euros effective 1 January 2002. However, the key issue relates to the split-currency system of assessment presently in use versus the single-currency system based on the euro. In other words, the question is whether the present 18 per cent of the budget and assessed contributions in United States dollars should also be budgeted and assessed in euros.

A. Replace schillings with euros under the split-currency system

19. Should Member States decide that UNIDO should remain with the split-currency system of assessment, the implications for the budgetary, operational and financial aspects would be minimal. A number of changes, as elaborated in paragraph 8, have already been introduced. There would be no implications for current budgetary practices or financial aspects other than amending the financial regulations to replace references to the Austrian schilling by the euro. Limited changes in the computerized financial systems and contractual obligations would be necessary (paras. 21 and 22).

Financial regulations

20. The following financial regulations would require amendments for which approval by the General Conference would be needed:

Regulation	Current text	Proposed text	Comments
Appropriation and assessment			
5.1(d)	"Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	"Each assessment shall be established in a component in United States dollars and the remainder in euros in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	Reference to Austrian schillings will be replaced by euros.
Collection of contributions and advances			
5.5(e)	"Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	"Contributions to the regular budget are established in United States dollars and euros in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and euro obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	References to Austrian schillings will be replaced by euros.

Computerized systems

21. Necessary changes in the computerized financial systems and reporting have been or are being made to introduce the euro. By the end of the transitional period (31 December 2001), UNIDO's financial systems are expected to be ready to use the euro instead of the schilling. These changes should be implemented as part of normal programme maintenance and system improvements, and thus the Secretariat expects to be able to handle the euro on 1 January 2002.

Contractual obligations

22. Contractual obligations and other commitments in Austrian schillings would need to be changed/converted to euros. No major problems are foreseen in this respect, as the exchange rate between the two currencies has already been fixed (effective 1 January 1999: euro 1 = ATS 13.7603).

B. Introduce a euro-based single-currency system

23. At present, UNIDO accounting and reporting are in United States dollars. The introduction of the euro as a single-currency system of assessment would have a number of budgetary, operational and financial implications.

24. The most important budgetary implication would be that both the regular and operational budgets would be prepared and presented in euros.

25. Another major implication would be that UNIDO would have to record and report financial transactions in two currencies:

(a) Euros: For the regular and operational budgets, consolidated financial statements, and reports to donors (if required);

(b) United States dollars: For extrabudgetary activities (mainly technical cooperation) and reports to donors.

26. Although the operational budget is financed through support cost reimbursement on extrabudgetary activities and income from technical services, in order to facilitate unified budgeting and accounting for both the regular and operational budgets, the latter would also have to be recorded and reported in euros. This implies that income, which is normally received in dollars, would be recorded in euros.

27. The regular budget is financed through assessments. The main features of a single-currency system would be:

(a) A system of assessment entirely in local currency would be relatively simple and straightforward in application, especially with respect to reporting;

(b) Member States would know precisely the amount of their assessed contributions at the time the assessment is levied;

(c) Most expenditures, which would be paid in euros, would be recorded and reported in the same currency.

28. Some difficulties could be expected with a single currency system, including:

(a) A residual risk from exchange rate fluctuations will always remain. A mechanism similar to those introduced by other organizations (such as a special reserve fund or forward purchasing contracts) would need to be applied to protect the Organization;

(b) A local currency-based system may complicate comparison of budgets with those of previous years and with the budgets and assessments of other organizations;

(c) UNIDO would have to introduce a dual currency accounting system in which both euros and dollars could be equally used as the base currency. A new accounting software would be required to handle transactions and present reports in both currencies (paras. 25 and 38).

Protection against exchange rate fluctuations

29. UNIDO would continue to use dollars (presently 18 per cent requirement) to meet dollar-based obligations (such as costs for the field offices or settlements with the United Nations Development Programme and the United Nations). Therefore, risks arising from exchange rate fluctuations would remain. However, it is not expected that the Organization would be exposed to significant exchange rate fluctuation risks, as experienced during 1986-1987 when the single-currency system of assessment was based on dollars and most expenditures were in schillings (paras. 10 and 11). The exchange risk could further be reduced by minimizing the current dollar-based expenditures. However, it would not be possible to eliminate all such transactions and associated risks.

30. Therefore, a mechanism would be required to protect the Organization from exchange rate fluctuations. As shown in annex II, this practice has already been adopted by a number of organizations.

31. To minimize dollar expenditures, some major items such as those listed below could be settled in euros instead of dollars, thereby reducing exposure to exchange rate fluctuations. These figures should, however, be treated with caution as negotiations and agreements with other parties would be required:

(a) Contributions to the United Nations Joint Staff Pension Fund: UNIDO pays the Fund in dollars, which represent about 5 per cent of the dollar expenditures. The Pension Fund is expected to accept these contributions in euros. This would, however, require negotiation and agreement;

(b) Staff salaries: Staff are entitled to receive a portion of their salaries in dollars, which represents about 2 per cent of the dollar exposure. Headquarters staff could be paid in euros only.

Effect on assessed contributions

32. Under a single-currency system, Member States would be required to pay 100 per cent of their assessed contributions in euros, and there would be no exposure to dollars. Should these contributions be paid and recorded in euros, no exchange gains or losses would result from the application of these payments, which would represent an improvement over the present system (para. 14).

33. Outstanding assessed contributions would be shown consistently in one currency, making information realistic and comparable.

Financial regulations

34. The following financial regulations would require amendment, for which approval by the General Conference would be needed. A number of related financial rules would also require amendment, which would be carried out by the Director-General after approval by Member States of the introduction of a single-currency system.

Financial regulation	Current text	Proposed text	Comments
Preparation of the budgets			
3.2	"The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in United States dollars."	"The financial estimates shall cover income and expenditures for the fiscal period to which they relate and shall be presented in euros."	Reference to United States dollars would be replaced by euros.
Appropriation and assessment			
5.1(d)	"Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies."	"Each assessment shall be established in euros."	References to Austrian schillings and United States dollars would be replaced by euros. Reference to split-currency element would be deleted.
Collection of contributions and advances			
5.5(d)	"Advances to the Working Capital Fund shall be assessed and paid in United States dollars."	"Advances to the Working Capital Fund shall be assessed and paid in euros."	Reference to United States dollars would be replaced by euros.
5.5(e)	"Contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with regulation 5.1(d). Payments may be made in either or both of these currencies provided that any payment shall be credited on a pro-rata basis to the dollar and schilling obligation at the United Nations accounting rate of exchange in effect at the time the payment is received."	"Contributions to the regular budget are established in euros."	References to Austrian schillings and United States dollars would be replaced by euros. Reference to split-currency element would be deleted.
Currency of accounts			
10.5	"The accounts of the Organization shall be presented in United States dollars. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary".	"The accounts of the Organization shall be presented in euros. Accounts and accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary".	Reference to United States dollars would be replaced by euros.

Staff regulations

35. No amendment to the staff regulations would be required. However, schedule I of the staff regulations referred to in staff regulation 6.1, which shows salary scales for the professional and higher categories in United States dollars, would need to be supplemented to show amounts in euros. The same principle would apply to other elements of remuneration presently shown in United States dollars, such as schedule III (staff assessment) and annex I (dependency allowances).

Exchange rate for conversion of existing dollar-based amounts

36. All assets, liabilities, fund balances and reserves–which are presently shown in United States dollars–would require conversion into euros on 1 January 2002. Most of these balances would be converted using the United Nations rate of exchange applicable at that time. However, a General Conference decision would be required to convert outstanding assessed contributions, fund balances and surpluses. In so doing, the current policy of applying the average exchange rate for the three-year period could be adopted (for instance, the average dollar/euro exchange rate during 1999 through 2001). This would be similar to the current policy for the conversion of Austrian schillings into United States dollars, under which the schilling arrears of the previous biennium are converted to dollars (IDB.7/Dec.7). (For example, the schilling arrears of the biennium 1996-1997 were converted to dollars using the average exchange rate for the three-year period 1996 to 1998.)

37. In line with established practice, the budgetary rate of exchange for the biennium 2000-2001 continued to be USD 1 = ATS 12.90. An exchange rate would be essential to convert the 2000-2001 budget to euros to ensure a realistic comparison with the budgets of future periods.

Computerized systems

38. As stated in paragraphs 25 and 28 (c) above, records and reporting would have to be in both euros and United States dollars. Specifically, the need would be to produce regular and operational budget reports and consolidated financial statements in euros, statements on extrabudgetary activities in dollars and euros, and financial statements to donors in dollars and/or euros. Therefore, an appropriate computerized financial system would have to be introduced by 31 December 2001. The work could take at least two years provided sufficient resources are made available to undertake such a task. Currently, UNIDO is evaluating various computerized information systems to improve overall performance, and a dual currency feature would become a major consideration. The scope and estimated costs of introducing a dual-currency accounting system would have to be studied.

Contractual obligations

39. Current major contractual obligations and other commitments in United States dollars–such as CCAQ, JIU, the loan from the United Nations and other inter-agency charges–would need to be negotiated with other parties for conversion to euros to the extent possible.

VI. CONCLUSION

40. The central issue is whether the 18 per cent of assessments at present in United States dollars should be assessed in euros. If Member States decide to do so effective 1 January 2002, the question of timing is critical. A decision on whether to move at that time to a euro-based single-currency system of assessment is required by the General Conference at its eighth session for the following reasons:

(a) The programme and budget proposals for the biennium 2002-2003 will have to be prepared during the period 2000-2001 for consideration by the Programme and Budget Committee and the Industrial Development Board before submission to the General Conference at its ninth session towards the end of 2001.

(b) Requisite changes in the payroll, accounting, financial and other computerized systems could take approximately two years. These changes would be essential to ensure that all systems have the facility for both euro and dollar accounting and reporting, and they would need to be introduced before December 2001.

(c) Necessary negotiation with other parties to minimize dollar exposure, and to establish a mechanism to deal with exchange rate fluctuations.

VII. ACTION REQUIRED OF THE BOARD

41. Within the framework of its decision IDB.21/Dec.8, the Board may wish to take note of the information provided in the present document, and of the conclusions to be submitted by the open-ended intersessional working group, and to make an appropriate recommendation to the General Conference.

Annex I

SUMMARY OF MAJOR BUDGETARY, OPERATIONAL AND FINANCIAL IMPLICATIONS

	Split currency	Single currency
The euro	Certain adjustments required to address change from schillings to euros following transition period (i.e. effective 1 January 2002) (paras. 19-22)	A number of adjustments would be required during transition period to implement single-currency system (paras. 23-39)
Main issues	Minor changes would be required (para. 19)	(a) Current portion of assessments in USD (18%) would also be assessed in euros; (b) accounting and reporting would be done in euros and USD; (c) mechanism would be required to protect against exchange rate fluctuations; (d) exchange rates would need to be established for conversion of assets, liabilities, fund balances and reserves (paras. 18, 25, 29, 30, 36)
Practices in other organizations	Only UNIDO, IAEA and UNESCO operate under a split-currency system (paras. 16, 17, annex II)	Most United Nations organizations operate under a single-currency system based on USD or host country currency. These organizations have introduced a number of measures to protect against exchange rate fluctuations (e.g. forward purchasing contracts, reserve funds/accounts, supplementary estimates) (paras. 16 and 17, annex II)
Amendment of financial regulations	Regulations on appropriations and assessment (5.1 (d)) and collection of contributions and advances (5.5 (e)) will require amendment (para. 20)	Regulations on preparation of budgets (3.2), appropriations and assessment (5.1(d)), collection of contributions and advances (5.5(d), 5.5(e)) and currency of accounts (10.5) would require amendment (para. 34)
Computerized systems and reporting	Necessary changes are being introduced, and the Secretariat should be able to handle euros on 1 January 2002 (para. 21)	Appropriate computerized financial systems would have to be introduced by 31 December 2001 to ensure functionality for both euro and dollar accounting and reporting. Work could take at least two years. Financial implications would have to be studied (para. 38)
Budgeting	Income and expenditures are budgeted in currencies in which funds are expected to be received and disbursed, thus ensuring availability of requisite funds to implement approved programme and budgets without exposure to exchange rate fluctuations. Similarly, Member States are shielded from unforeseeable and major increases in assessed contributions (para. 12)	Income and expenditures, including dollar-based expenditures, would be budgeted in euros. Conversion of euros to USD would expose UNIDO to exchange rate fluctuations, thus necessitating introduction of a protective mechanism (paras. 28-31)

	Split currency	Single currency
Effect on assessments	Member States are assessed 18 per cent in USD and 82 per cent in schillings/euros. Exchange gains or losses from timing of payment are passed on to Member States (para. 14)	Member States would be assessed in euros only. Should contributions be paid and recorded in euros, no exchange gains or losses would result (para. 32)
Outstanding assessed contributions	Outstanding assessed contributions in schillings are periodically converted to dollars for reporting purposes. This reporting does not provide realistic information owing to exchange rate fluctuations with no real change in amounts owed (para. 15)	Outstanding assessed contributions would be shown consistently in one currency, making information realistic and comparable (para. 33)
Accounting and reporting	About 82 per cent of expenditures are incurred in schillings/euros, but accounting is in dollars. This results in considerable book gains or losses and also involves considerable time in reconciling differences (para. 13)	All budgetary expenditures would be recorded and reported in euros, whereas extrabudgetary expenditures would be recorded in USD and euros (paras. 25-27)
Improved budgetary controls	For budgetary comparison, a constant rate of USD 1 = ATS 12.90 is used to convert all schilling transactions to dollars. However, the monthly United Nations rate of exchange is used for accounting and reporting purposes. Therefore, comparison between budgetary and accounting records is time consuming (para. 13)	Transactions for budget and accounting would be recorded in euros, thus making comparison of budgets with actual expenditure simpler. This would lead to improved budgetary control (para. 27)

Annex II

OTHER ORGANIZATIONS

Organization	Currency of assessment	Currency of accounting/ reporting	Proportion of expenditures in currencies (approximate)	Handling of exchange gains and losses
			Split currency	
IAEA	USD and ATS	USD	ATS/euro: 84%; USD: 16%	The system protects from exchange rate fluctuations.
UNIDO	USD and ATS	USD	ATS/euro: 82%; USD: 18%	The system protects from exchange rate fluctuations.
UNESCO	USD and FRF	USD	FRF/euro: 60%; USD/other: 40%	The system protects from exchange rate fluctuations.
			Single currency	
CTBTO	USD	USD	USD:70%; ATS/euro: 30%	On closing of the account for the financial year, the balance in account for loss/gain is debited/credited to miscellaneous income.
FAO	USD	USD	ITL/euro: 50%; USD/other: 50%	All gains/losses on exchange transactions are debited/credited to a special reserve account.
ICAO	USD	USD	CAD: 60%; USD/other: 40%	Forward purchasing contracts of Canadian dollars are made to protect from currency fluctuations.
ILO	CHF	USD	CHF: 65%; USD/other: 35%	Exposure to United States dollars is covered through the forward purchasing of that currency.
IMO	GBP	GBP	GBP: 85%; USD: 15%	The Organization is authorized to make necessary recalculation of the biennium, in the light of exchange rate movement during the first year.
ITU	CHF	CHF	CHF: 88%; USD: 12%	Variations in the exchange rate between Swiss francs and United States dollars affecting staff costs are debited/credited to a reserve account.
OPCW	NLG	NLG	NLG: 95%; USD: 5%	Exchange gains/losses are absorbed within the approved budget.
UN	USD	USD	USD: 40%; CHF/other: 60%	Additional requirements normally covered by supplementary estimates approved by the General Assembly in the second budget performance report. Gains are credited to miscellaneous income.
UPU	CHF	CHF	CHF: 96%; USD/other: 4%	Exchange losses and gains are covered by a reserve fund.
WHO	USD	USD	USD: 70%; CHF/other: 30%	Exchange losses and gains are debited/credited to a casual income account.
WIPO	CHF	CHF	CHF: 97%; USD: 3%	Any exchange rate losses or gains are included in the accounts as other operating expense or as miscellaneous income.
WMO	CHF	CHF	CHF: 88%; USD: 12%	Exchange rate changes are absorbed within the budget expenditures.

Note: Compiled from various sources, including ACC/1995/FB/R.49 of 28 December 1995.

Abbreviations

ATS	Austrian schilling
CAD	Canadian dollar
CCAQ	Consultative Committee on Administrative Questions
CHF	Swiss franc
CTBTO	Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization
FAO	Food and Agriculture Organization of the United Nations
FRF	French franc
GBP	Pound sterling
IAEA	International Atomic Energy Agency
ICAO	International Civil Aviation Organization
ILO	International Labour Organization
IMO	International Maritime Organization
ITL	Italian lira
ITU	International Telecommunication Union
JIU	Joint Inspection Unit
NLG	Netherlands guilder
OPCW	Organization for Prevention of Chemical Weapons
UNDCP	United Nations International Drug Control Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UPU	Universal Postal Union
USD	United States dollar
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization

Distr.
GENERAL

GC.8/19
IDB.21/31
18 November 1999

United Nations Industrial Development Organization

ORIGINAL : ENGLISH

GENERAL CONFERENCE

Eighth session
Vienna, 29 November - 3 December 1999
Item 11 (g) of the provisional agenda

Industrial Development Board

Resumed twenty-first session
Vienna, 29 November 1999
Agenda item 4 (j)

IMPLICATIONS OF THE EURO FOR UNIDO

Intersessional working group on proposed amendments to the financial regulations

Report of the Chairman, H.E. Mrs. I. Freudenschuss-Reichl, Austria

Reports on the deliberations of the intersessional working group concerning the introduction of the euro in the accounting of UNIDO.

1. In its decision IDB.21/Dec.8, the Board enlarged the mandate of the intersessional working group on proposed amendments to the financial regulations to discuss all aspects of the possible adoption of a single currency system of assessment based on the euro, and requested the group to submit its conclusions to a resumed twenty-first session of the Board, for submission to the eighth session of the General Conference, with a view to taking appropriate action and a decision. The present document is submitted in compliance with that request.

2. The working group held two meetings, on 22 October and 18 November 1999. During those meetings, the Secretariat made presentations and, in response to queries raised at the first meeting, circulated a supplementary paper on 9 November 1999. There was a wide exchange of views both among Member States and between Member States and the Secretariat. The Secretariat provided satisfactory information that enabled preparing a draft decision on the implications of the euro for UNIDO. That decision, contained in paragraph 3 below, was met with no objection by the intersessional working group. Thus, it was agreed to forward the draft decision to the Board at its resumed twenty-first session. After agreement was reached on the draft decision, one Member State made a statement in its support.

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.99-89721 (E)

Distr.: 24 November 1999

ACTION REQUIRED OF THE BOARD

3. The Board may wish to take up consideration of the draft decision below:

The Industrial Development Board:

(a) Takes note of the report by the Director-General on implications of the euro for UNIDO (GC.8/15-IDB.21/30) and the report of the Inter-sessional working group on proposed amendments to the Financial Regulations of UNIDO (IDB.21/31-GC.8/19);

(b) Recommends to the General Conference adoption of the following draft decision:

"The General Conference:

(i) Decides to adopt, beginning with the fiscal period 2002-2003, a single-currency system of assessment based on the euro for contributions to the regular budget;

(ii) Also decides to amend the concomitant Financial Regulations of UNIDO relating to the preparation of budgets, appropriation and assessment, collection of contributions and advances, and currency of accounts, as stated in paragraph 34 of document GC.8/15-IDB.21/30;

(iii) Authorizes the Director-General to introduce necessary changes to the schedule 1 and annexes to the Staff Regulations of UNIDO, as stated in paragraph 35 of document GC.8/15-IDB.21/30;

(iv) Also authorizes the Director-General to establish a reserve, not subject to the provisions of Financial Regulations 4.2(b) and 4.2(c), for the purpose of protecting the Organization from exchange rate fluctuations;

(v) Requests the Director-General to report to the General Conference, at its tenth regular session, on the implementation of the transition to the single-currency system."